



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

December 18, 2015

MEMORANDUM FOR CHIEF, NATIONAL GUARD BUREAU

SUBJECT: Letter of Comment (Report No. DODIG-2016-035)

We have reviewed the system of quality control for the National Guard Bureau Internal Review (NGB IR) Office in effect for the year ended February 28, 2015, and have issued our final report on December 18, 2015, in which the NGB IR Office received a rating of pass with deficiencies. The enclosed report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The findings described below were not considered to be of sufficient significance to affect the opinion expressed in the report.

## **NGB IR**

### ***Finding 1. The NGB IR Policies Do Not Address All Government Auditing Standards (GAS) for Independence and Fieldwork***

GAS 3.84 states that each audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel.

#### **Independence**

GAS 3.26 states that if a threat to independence is initially identified after the auditors' report is issued, the auditor should evaluate the threat's impact on the audit and on GAS compliance. The NGB IR Quality Control Review Guide does not contain procedures to evaluate threats to independence after the auditors' report is issued. Also, the NGB IR Policy Memorandum, "Internal Review Policy Memorandum (2013), Impairments to the Government Auditing Standard of Independence," January 1, 2013, does not contain guidance on evaluating threats to independence after the audit report is issued.

#### **Fraud Risk**

GAS 6.31 states that when auditors identify factors or risks related to fraud that has occurred or is likely to have occurred that they believe are significant within the context of the audit objectives, they should design procedures to obtain reasonable assurance of detecting any such fraud. The NGB IR Quality Control Review Guide includes a checklist to verify that the auditors assess risk and potential fraud and abuse during the planning phase of each audit. However, the Quality Control Review Guide does not address the design of procedures

to obtain reasonable assurance of detecting fraud when the auditors identify fraud risks that have occurred or likely to have occurred. Also, the Quality Control Review Guide does not contain procedures to extend the audit steps when information comes to the auditors' attention indicating that fraud, significant to the audit objectives, may have occurred.

Adding policies and procedures to the NGB IR Quality Control Review Guide and "Internal Review Policy Memorandum (2013), Impairments to the Government Auditing Standard of Independence," January 1, 2013 will assist NGB IR management in ensuring that auditors are fully aware of their responsibilities when performing work in accordance with GAS.

### *Recommendation 1*

**The Director, National Guard Bureau Internal Review Office, should update audit policies to include procedures for:**

- **Evaluating threats to independence after the audit report is issued.**
- **Obtaining reasonable assurance of detecting fraud when the auditors identify fraud risks that have occurred or likely to have occurred.**
- **Extending the audit steps when information comes to the auditors' attention indicating that fraud, significant to the audit objectives, may have occurred.**

### *Management Comments*

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director, NGB-Internal Review will update audit policies and will issue a fraud audit policy including appropriate audit procedures by March 31, 2016.

### *Our Response*

The National Guard Bureau comments met the intent of the recommendation.

No additional comments are required.

## ***Finding 2. Draft NGB IR Audit Documentation and Reporting Policy Has Not Been Finalized Since January 2010***

The NGB IR Audit Documentation and Reporting Policy has not been finalized since being drafted 5 years ago. During this review, we requested a final copy of the policy and were only provided with a copy, dated January 1, 2010, which contained the Microsoft Word "draft" watermark on all the pages of the policy.

### *Recommendation 2*

**The Director, National Guard Bureau Internal Review Office, should finalize and issue the Audit Documentation and Reporting Policy to the National Guard Bureau Internal Review auditors.**

### *Management Comments*

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director, NGB-Internal Review will update, finalize and issue the Audit Documentation and Reporting Policy by February 29, 2016.

### *Our Response*

The National Guard Bureau comments met the intent of the recommendation. No additional comments are required.

## **NGB United States Property and Fiscal Office IR**

### ***Finding 3. Deficiencies in the Referencing Process***

The NGB IR Audit Documentation and Reporting Policy provide policy and guidance for quality control referencing of audits the NGB IR conducts. It implements portions of GAS on quality control, documentation, and reporting. The Audit Documentation and Reporting Policy states that referencing is the quality control process that includes supervisory reviews that provide reasonable assurance that auditing standards are met. Also, this policy states that the draft reports should be referenced to the objective summaries, tentative findings and recommendations, or working papers as required. For four of the projects reviewed, the draft reports were not referenced and did not comply with the Audit Documentation and Reporting Policy.

### *Recommendation 3*

**The Director, National Guard Bureau Internal Review Office, should take action to ensure that referencing is completed and in accordance with their policy.**

### *Management Comments*

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director, NGB-Internal Review will reemphasize existing policy, ensure that referencing is a focal point of future quality control reviews, and provide training at our 2016 training workshop. Referencing will be continually enforced with an initial target completion date of May 31, 2016.

### *Our Response*

The National Guard Bureau comments met the intent of the recommendation. No additional comments are required.

### ***Finding 4. Lack of Documentation for Independence Considerations Not Identified by the NGB IR Quality Control Program***

In December 2014, the NGB IR Division's Quality Control Program conducted a quality control review of the Florida United States Property and Fiscal Office (USPFO) IR Division to determine whether the Florida USPFO IR Division and its personnel complied with professional auditing standards and applicable legal and regulatory requirements while performing work. We reviewed three audit projects completed by the Florida USPFO IR Division to determine whether the significant conclusions reached by the NGB IR were reasonable and consistent with those of the external peer review team.

For the three projects we reviewed, the auditors did not document independence considerations to provide evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. This deficiency is not consistent with the NGB IR Quality Control Program's conclusion that the Florida USPFO IR Division was adhering to the GAS independence standard. The Florida USPFO IR Division included disclaimer statements in their audit reports that disclosed potential impairments to independence when auditors who were members of the National Guard or dual status technicians performed or supervised audits, but this is not sufficient to fully comply with GAS.

GAS 3.59a requires auditors to document threats to independence that require the application of safeguards, along with safeguards applied, in accordance with the GAS Conceptual Framework for Independence. Although insufficient documentation of an auditor's compliance with the independence standard does not impair independence, appropriate documentation is required under the GAS quality control and assurance requirements.

### *Recommendation 4*

**The Director, National Guard Bureau, Internal Review Office, should remind the Internal Review audit staff to document independence considerations to provide evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements.**

### *Management Comments*

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director, NGB-Internal Review will remind the Internal Review audit staff on the requirements to properly document all independence considerations during the next three staff calls with a target completion date of March 31, 2016.

### *Our Response*

The National Guard Bureau comments met the intent of the recommendation. No additional comments are required.

### ***Finding 5. Use of Audit Report Templates by USPFO IR Divisions***

GAS contains requirements, guidance, and considerations for performing and reporting on attestation engagements. The term “agreed-upon procedures” should only be used when performing and reporting on such an engagement. Additionally, GAS states an attestation engagement can provide one of three levels of service, namely an examination engagement, a review engagement, or an agreed-upon procedures engagement.

Two of the three USPFO IR Divisions issued reports that included the term “agreed upon procedures” even though the reports were communicating the results of performance audits, not an attestation engagement. We were informed the USPFO IR Divisions were using a report template which was shared among the Divisions and they did not modify the template to properly identify the work performed.

### *Recommendation 5*

**The Director, National Guard Bureau Internal Review Office, should issue guidance and provide training to the USPFO IR Divisions on the usage of audit report templates.**

### *Management Comments*

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director NGB-Internal Review will develop and provide training on the usage of audit report templates during their 2016 training workshop with an initial target completion date of May 31, 2016.

### *Our Response*

The National Guard Bureau comments met the intent of the recommendation. No additional comments are required.



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